

FOREST HILL CHURCH  
FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015  
AND  
INDEPENDENT AUDITOR'S REPORT

FRANKLIN & FRANKLIN, PA  
CERTIFIED PUBLIC ACCOUNTANTS

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FOREST HILL CHURCH  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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# FRANKLIN & FRANKLIN, PA

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

Finance Committee and Council of Elders  
Forest Hill Church  
Charlotte, North Carolina

We have audited the accompanying financial statements of Forest Hill Church (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015 and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forest Hill Church as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Franklin & Franklin, PA  
Matthews, North Carolina  
December 21, 2016

*Franklin & Franklin, PA*

FOREST HILL CHURCH  
STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2016 AND 2015

	SEPTEMBER 30,	
	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,419,710	\$ 7,640,570
Inventory, Bookstore	25,071	32,637
Sales tax receivable	149,011	63,689
Prepaid expenses	139,944	113,546
TOTAL CURRENT ASSETS	2,733,736	7,850,442
PROPERTY & EQUIPMENT - Note 2	52,272,574	44,833,378
Less accumulated depreciation	(17,199,186)	(15,557,015)
PROPERTY, NET	35,073,388	29,276,363
TOTAL ASSETS	\$ 37,807,124	\$ 37,126,805
<b>LIABILITIES &amp; NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 450,563	\$ 439,166
Accrued payroll and related liabilities	65,841	247,188
Accrued vacation payable	276,255	193,075
TOTAL CURRENT LIABILITIES	792,659	879,429
LONG-TERM DEBT	-	-
TOTAL LIABILITIES	792,659	879,429
<b>NET ASSETS</b>		
Unrestricted:		
Property	35,073,388	29,276,363
Designated	53,456	46,195
Undesignated	(1,381,283)	3,704,944
	33,745,561	33,027,502
Temporarily restricted	3,268,904	3,219,874
TOTAL NET ASSETS	37,014,465	36,247,376
TOTAL LIABILITIES & NET ASSETS	\$ 37,807,124	\$ 37,126,805

See accompanying notes and independent auditor's report

FOREST HILL CHURCH  
STATEMENTS OF ACTIVITIES  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
UNRESTRICTED NET ASSETS		
REVENUE		
Contributions	\$ 18,306,421	\$ 16,350,561
Preschool	266,291	285,687
Investment income	2,205	2,103
	18,574,917	16,638,351
NET ASSETS RELEASED FROM RESTRICTIONS	6,484,411	1,825,721
 TOTAL UNRESTRICTED REVENUE AND SUPPORT	 25,059,328	 18,464,072
EXPENSES		
Program services:		
Personnel	8,644,826	7,075,528
Church programs	1,794,373	2,178,530
Benevolence	2,608,315	2,165,619
Building operations	901,683	990,868
Preschool	264,939	272,981
Depreciation	1,235,241	1,379,517
	15,449,377	14,063,043
Supporting services:		
Personnel	722,197	789,665
Building Operations	297,045	121,717
Depreciation	406,930	169,458
Administration	803,253	533,972
	2,229,425	1,614,812
TOTAL EXPENSES	17,678,802	15,677,855
 CHANGE IN UNRESTRICTED NET ASSETS BEFORE TRANSFERS	 7,380,526	 2,786,217
TRANSFERS TO TEMPORARILY RESTRICTED NET ASSETS	(6,662,467)	-
CHANGE IN UNRESTRICTED NET ASSETS	718,059	2,786,217
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and program revenue	3,100,230	4,302,290
Transfers from unrestricted net assets	6,662,467	-
Designated program expenses	(3,229,256)	(1,063,804)
Net assets released from restrictions	(6,484,411)	(1,825,721)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	49,030	1,412,765
CHANGE IN NET ASSETS	767,089	4,198,982
NET ASSETS, BEGINNING OF YEAR	36,247,376	32,048,394
NET ASSETS, END OF YEAR	\$ 37,014,465	\$ 36,247,376

See accompanying notes and independent auditor's report

FOREST HILL CHURCH  
STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

CASH FLOWS FROM OPERATING ACTIVITIES	2016	2015
Excess of Revenue over Expenses	\$ 767,089	\$ 4,198,982
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	1,642,171	1,548,975
Changes in:		
Inventory	7,566	(12,384)
Sales tax receivable	(85,322)	3,070
Prepaid expenses	(26,398)	(16,398)
Accounts payable	11,397	163,073
Accrued payroll and related liabilities	(181,347)	75,438
Accrued vacation payable	83,180	35,129
Net Cash Flows from Operating Activities	2,218,336	5,995,885
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property	(7,439,196)	(3,121,665)
Disposition of property	-	225,375
Net Cash Flows from Investing Activities	(7,439,196)	(2,896,290)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of long-term debt	-	-
Payment of long-term debt	-	-
Net Cash Flows from Financing Activities	-	-
 Net Change in Cash and Cash Equivalents	(5,220,860)	3,099,595
 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,640,570	4,540,975
 CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,419,710	\$ 7,640,570

No interest was paid during the years ended September 30, 2016 or 2015.

See accompanying notes and independent auditor's report

FOREST HILL CHURCH  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. Nature of Operations

Church

Forest Hill Church (the "Church") was incorporated in August, 1986, and is located in Charlotte, North Carolina. The purpose of the Church is to reach and see people transformed by the Power of the Holy Spirit into fully devoted servants of Jesus. The Church is supported primarily by voluntary contributions from individuals.

Seeds of Hope, Inc.

Seeds of Hope, Inc. (Seeds of Hope) is a not-for-profit organization founded in 2006 that is comprised of churches and partners bound together to renew lives, families and communities. Seeds of Hope seeks to develop and empower people with the resources to own and overcome their own challenges.

Principles of Consolidation

The board of directors of Seeds of Hope is comprised primarily of current or former members of the Church's Council of Elders. Therefore, due to common control, in prior years, the consolidated financial statements included the activities of both entities. Because of the minimal activity in Seeds of Hope for the current and prior year, these financial statements are not reflected on a consolidated basis.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted net assets* - Net assets that are not subject to any donor-imposed stipulations. Gifts of land, buildings and equipment are recorded as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Designated net assets represent funds designated by the Church for specific purposes. However, these funds have not been restricted by donors and are available for any purpose at the Church's discretion.

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Church and/or the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Church. At September 30, 2016, the Church had no permanently restricted net assets.

FOREST HILL CHURCH  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

Promises to give

Unconditional promises to give are recorded at the time the promise to give is received by the Church. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Intentions to give are not recognized because the intentions do not represent a legally enforceable pledge. At year-end, the Church had no promises or intents to give.

Donated services and goods

Donated services are reported as contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution; require specialized skills, and are provided by individuals possessing those skills. Donated equipment or materials, if significant, are included in support at fair value. During the year, the Church recorded no contributed services.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Church with specific assistance programs and various assignments. No amounts have been reflected in the financial statements for these contributions as the contributions are either insignificant or do not meet the criteria for recognition.

Other Support

Contributions of marketable securities are generally sold upon receipt. Donations of motor vehicles are either utilized in operations or sold upon receipt. Donated real property, equipment or materials, if significant, are included in support at fair value. During the year, no contributed equipment was recorded.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in interest-bearing and non-interest bearing checking accounts, and money funds.

Receivables

The balance of receivables at September 30, 2016 and 2015, consists of North Carolina sales tax paid that will be refunded. The balance is presently at net realizable value and is expected to be collected in the subsequent year.



FOREST HILL CHURCH  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

Property and equipment

Property and equipment is stated at cost if purchased or fair value at date of receipt if donated, subject to a \$1,000 capitalization policy. Depreciation is provided over the estimated useful lives of the assets, which is assumed to be forty years for buildings and three to ten years for equipment, and is computed on the straight-line method with no estimated salvage values. The costs of major improvements are capitalized while the costs of maintenance and repairs, which do not improve or extend the useful life of the respective asset, are expensed when incurred. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal and any resulting gain or loss is included in the changes in net assets in the period during which the disposition occurred.

Inventory

Inventories are valued at the lower of cost or market using the weighted average method. Inventory consists primarily of books, periodicals, audio, video, and other materials that will either be sold or used in Church operations. Management estimates that no allowance for slow-moving inventory was necessary at year-end.

Advertising

The Church expenses advertising costs as the costs are incurred.

Functional allocation of expenses

Expenses are allocated to program services, management and general, and fund raising based on management's estimates of time spent and various allocation methods appropriate to the type of expense.

Income tax status

The Church is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3) with respect to their exempt function income. The Church is not classified as a private foundation as defined by Section 509(a) of the Internal Revenue Code. Generally accepted accounting procedures require an organization to recognize a tax benefit or expense from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Church has no uncertain tax positions as of September 30, 2016.

FOREST HILL CHURCH  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED SEPTEMBER 30, 2016 AND 2015

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Property and Equipment

Property and equipment which are used by the Church in its operations consists of the following at September 30, 2016:

Land, buildings, and improvements	\$43,087,710
Furniture, fixtures, and computer equipment	9,031,224
Transportation equipment	<u>153,640</u>
Total	52,272,574
Less accumulated depreciation	<u>(17,199,186)</u>
TOTAL	<u>\$35,073,388</u>

4. Net Assets

Designated

Funds that have been set aside by the Church for a purpose other than normal operations, but are not donor-restricted, consist of \$53,456 at year-end.

Temporarily restricted

Funds that have been received by the Church for a particular purpose or period of time that have remaining restrictions at September 30, 2016 are detailed as follows:

Missions	\$ 596,340
So That Campaign	2,531,579
All others	<u>140,985</u>
TOTAL	<u>\$3,268,904</u>

During the year ended September 30, 2015 the Church terminated a program for which funds had been received and retained such funds for the use of similar temporarily restricted programs.

FOREST HILL CHURCH  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

5. Retirement Plan

The Church maintains a retirement savings account, as described in Internal Revenue Code Section 403(b), for the benefit of its employees. Employees can make pre-tax and post-tax contributions to the plan based on limits set by applicable tax law. The Church made contributions of \$666,463 to the plan during the year ended September 30, 2016 and \$539,320 during the year ended September 30, 2015.

6. Commitments

The Church has entered into an agreement with the Morrison Branch of the Metro Area YMCA whereby it has expanded its current YMCA facility. Under this agreement, the Church fully funded the additional functional space, which is owned and operated by the YMCA. In return, the Church uses the facility primarily for Sunday morning worship services and office space for the exclusive use of Forest Hill staff.

Included in the agreement with the Morrison Branch of the Metro Area YMCA is a quarterly fee calculation comprised of utilities, insurance, taxes, housekeeping, maintenance, room and floor set-up/tear-down costs, and capital repairs and replacement costs. This fee will fluctuate based on actual costs each quarter and will be paid throughout the thirty-year term.

In addition to the commitment above the Church is committed to short-term rental agreements in the amount of \$21,100 which expire February 28, 2017. Additionally the Church is committed at September 30, 2016 for construction costs in the amount of \$2,029,008. Additionally, during 2015 the Church purchased property from a church and made a commitment to the church that the Church will make contributions to the church in the amount of \$200,000 per year for the next three years.

Additionally, in the current year the Church made a commitment for the funding of Moments of Hope, an organization established separate from the Church with a separate board of directors which supports and coordinates the publishing activities of the Senior Pastor. During the year ended September 30, 2016 \$250,000 was contributed to the organization with an additional \$250,000 committed to be paid during the next four years. No salary was paid to the Senior Pastor by Moments of Hope.

7. Concentrations of Credit Risk

Cash in excess of insured limits

The Church regularly maintains cash balances in excess of FDIC insured limits. At September 30, 2016, the uninsured balance of cash was \$3,451,664. However, management believes that the risk related to the account is minimal due to the credit worthiness of the financial institutions.

FOREST HILL CHURCH  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

Geographic Area

The Church by its nature operates in a small geographic area, and is therefore subject to changes in the local economy.

8. Functional Expenses

The Church's activities are focused in three functional areas. Program services represent the primary focus of the Church's activities. Supporting services are fundraising activities and general and administrative activities. The costs of the various programs and other activities for the year ended September 30, 2016 are summarized on a functional basis below. Certain costs have been allocated among the program and supporting services benefited.

Program services		\$15,449,377
Supporting services		
Fundraising	\$ 222,943	
General and administrative	<u>2,006,482</u>	<u>2,229,425</u>
TOTAL		<u>\$17,678,802</u>

9. Related Party Transactions

The wife of the Church's senior minister performs management services for the Church. During the year, the compensation to her by the Church was \$16,000.

10. Subsequent Events

The Church has evaluated subsequent events from the date of the statement of financial position through December 31, 2016, the date of the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.